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TAGS: ENRG EPET ECON ETRD PGOV BO
SUBJECT: Russia Gives the Gift of Cheap Gas

Refs: (A) 04 Minsk 0193, (B) Minsk 1448

¶1. Summary: At a time when Gazprom is abrogating its supply contracts with other countries and raising gas prices for the recently democratic (Ukraine, Georgia), Belarus remains on the Gazprom gravy train for another year. On December 27, Gazprom and Beltransgaz (Belarus' domestic gas monopoly) signed a supply contract for 2006. Gazprom agreed to continue to supply Belarus with cut-rate gas, USD 46.68 per thousand cubic meters (tcm), and agreed to guarantee the delivery of 19.5 billion cubic meters (bcm), plus another 1.5 bcm as "technically" possible. End summary.

¶2. On December 27, after several months of negotiations, Gazprom and Beltransgaz signed a 2006 supply contract that retains 2005's bargain basement price of USD 46.68 per tcm. This contract also increases gas deliveries to an expected 21 bcm in 2006 (19.5 bcm guaranteed, 1.5 bcm is technically possible), up from the 19.1 bcm guaranteed and 20.15 actually delivered for 2005. Belarus had hoped for 21.5 bcm. Gazprom and Beltransgaz also agreed to retain the same tariffs for transit across Belarus: USD 0.75/tcm per 100 km in the Beltranzgas pipeline network, and USD 0.46/tcm per 100 km in the Gazprom-owned Yamal-Europa pipeline. [Note: For purposes of establishing prices, both networks are considered to be 575 km long.]

"No, that Really is Market Rate"

¶3. Despite USD 46.68/tcm being a far cry from the USD 230/tcm Gazprom is demanding from Ukraine, or even the USD 110/tcm Georgia is paying, Gazprom and GOB officials all insist Belarus is paying "market rate" for gas. Gazprom's press release on the contract stated, "When determining the gas supply and transit price for Belarus over 2006, Gazprom has taken into account the following circumstances:" Belarus and Russia are creating a union state; Gazprom owns the Yamal-Europa pipeline; in 2006 Gazprom expects Belarus to grant Gazprom a long-term lease for the land under the pipeline; and Russia and Belarus resumed negotiations to privatize Beltransgaz, which would allow Gazprom to control a share of this pipeline network.

¶4. On December 21, Gazprom's vice CEO Alexander Medvedev also listed the above factors to explain, "Gazprom's policy on Belarus is quite market-oriented; it is economically justified and is to the benefit of all our shareholders, both the state and private investors. On December 26, President Lukashenko argued that USD 46.68/tcm reflects market rates and is justified, since Belarus charges significantly less than Ukraine for transit, because Belarus will not join NATO, buys all its weapons from Russia, and is not charging rent for Russian bases in its country.

The Official Quid Pro Quo

¶5. In return for dirt cheap gas, Belarus charges Russia less for transit. From the Gazprom press release, it also appears the GOB has promised to give Gazprom a long-term lease on the land under the Yamal-Europa pipeline. More significantly, once again the GOB has promised to sell part of Beltransgaz to Gazprom. The GOB agreed to do so in 2002 and 2003, but in each case Gazprom accused the GOB of reneging (ref A). Gazprom wanted to buy at least 50% of the company, while the GOB offered to sell at most 49%, and that at a price Gazprom claimed was highly inflated. To block any deal with Gazprom, in 2004 the GOB sold 0.1% of Beltransgaz to the company's employees. The twoQdes agreed to have an outside company evaluate Beltransgaz's true value, but could not agree on which Deloitte & Touche office to hire.

¶6. According to press reports, on December 6 Gazprom CEO Alexey Miller and Belarusian Deputy Prime Minister Vladimir Semashko again discussed creating a Gazprom-Beltransgaz joint venture. On December 19, the Russian and Belarusian Prime Ministers discussed the sale of Beltransgaz, and Russian PM Mikhail Fradkov told the press that medium- to long-term gas cooperation depended on solving transit issues. On December 24, Deputy Gazprom CEO Medvedev said he expects a deal on privatizing Beltransgaz to be reached within two or three months. He added, "The sooner we strike a deal on Beltransgaz, the easier it will be to plan prices for Belarus in the future. The special price for Belarus is effective in 2006 only." This pressure may have been effective (or Belarus put on a show for Gazprom); starting in October Beltransgaz bought back the 0.1% of itself that had been owned by employees. The company is now fully state-owned. Deputy PM Semashko told the press that Belarus could now sell 50% to Gazprom (ref B).

Comment: What's the Real Quid Pro Quo?

¶7. After being burned twice by the GOB, it is doubtful Gazprom agreed to low gas prices simply on the renewed promise the GOB would finally sell a share of Beltransgaz. Instead, the terms of this gas contract indicate that the GOR continues to use gas prices to leverage its foreign policy in the neighborhood. Under the guise of demanding market rates from all buyers, Gazprom is raising rates for Ukraine and Georgia, the scene of two recent pro-democratic revolutions. Belarus' gas negotiations were much more contentious in 2003 and 2004, to the point where Gazprom briefly turned off Belarus' gas. Now that the neighborhood has changed, Belarus has escaped with no raising of gas prices. It also seems likely President Putin has offered cheap gas to help support Lukashenko in the March presidential elections. However, World Bank Country Manager for Belarus Vladimir Voronin told Emboffs he expects gas prices to rise sharply in 2007, with or without Russian WTO accession.

PHLIPOT